



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF HUMAN SERVICES  
LANSING



MARIANNE UDOW  
DIRECTOR

September 27, 2006

The Honorable Bill Hardiman, Chair  
Senate Appropriations Subcommittee on DHS  
Michigan State Senate  
Lansing, Michigan 48933

The Honorable Rick Shaffer, Chair  
House Appropriations Subcommittee on DHS  
Michigan House of Representatives  
Lansing, Michigan 48933

Dear Senator Hardiman and Representative Shaffer:

Attached you will find an update on our progress toward developing a performance-based managed care approach to contracting with private providers for general and specialized foster care services as required in Section 515 of 2005 Public Act No. 147. This letter also serves as the department's most recent update on its development of goals, objectives, and performance standards as described in Section 537 (2), for the quarter ending June 30, 2006.

DHS is pursuing a thoughtful and fiscally sound performance-based foster care system. While more work and preparation lie ahead, DHS has articulated a clear plan of action and taken several significant and necessary steps forward, consistent with legislative direction and in collaboration with private foster care providers including:

- DHS and private child placing agencies developed new standards for specialized foster care.
- DHS is committed to convening a short-term work group charged with the task of analyzing foster care costs and developing a plan for addressing rate issues.
- DHS entered into new private placing agency foster care (PAFC) contracts on April 16, 2006.

DHS continues to work toward a viable performance-based system and has already made significant strides, consistent with legislative direction and in collaboration with private foster care providers. We look forward to updating you on our continued progress.

Sincerely,

Marianne Udow

Attachment

C: Senate and House Appropriations Subcommittee on DHS  
Senate and House Fiscal Agencies  
Senate and House Policy Offices  
State Budget Office

## **UPDATE ON PERFORMANCE-BASED CONTRACTING FOR FOSTER CARE SERVICES**

In compliance with Sections 515 of Public Act No. 147 of 2005, the Michigan Department of Human Services (DHS) is writing to report its progress toward implementing a performance-based approach to contracting with private agencies for foster care services. This letter also serves as the department's most recent update on its development of goals, objectives, and performance standards, as described in Section 537 (2), for the quarter ending June 30, 2006.

DHS is pursuing a thoughtful and fiscally sound performance-based foster care system. Despite encountering obstacles and delays over the past year, DHS has adapted to these challenges and responded expeditiously to stakeholder concerns. While more work and preparation lie ahead, DHS has articulated a clear plan of action and taken several significant and necessary steps forward, consistent with legislative direction and in collaboration with private foster care providers.

### **Progress Toward Performance-Based Contracting**

During the 2006 fiscal year, the following actions have moved Michigan closer to performance-based contracting.

- The Legislature raised the minimum specialized administrative per diem rates to \$34.43 effective October 1, 2005.
- DHS and private child placing agencies developed new standards for specialized foster care. DHS set forth its plan for general and specialized services in the document "DHS Levels of Service for Family Foster Care" on November 1, 2005.
- In response to providers' fiscal concerns, DHS informed its contractors on March 31, 2006 that enforcement of the new contract standards for direct contacts would be postponed for three months, allowing agencies to prepare for a change in requirements. In addition, DHS committed to convening a short-term work group charged with the task of analyzing foster care costs and developing a plan for addressing rate issues.
- DHS entered into new private placing agency foster care (PAFC) contracts on April 16, 2006. The new contract language stated expectations for caseload sizes and direct service activities. The contract also established specific performance measures to improve service quality and increase positive outcomes for children. Execution of the new PAFC contracts represented a critical step in the development of performance-based contracting. For the duration of the 18-month contract, DHS is tracking performance data to establish a baseline on which subsequent performance-based contracts will rely.

### **Examining the Foster Care Rate Structure**

In correspondence dated April 6, 2006, DHS informed the Legislature that costs were being reviewed for the purpose of developing recommendations regarding the foster care rate structure. Fulfilling its commitment to address private agencies' financial concerns, DHS facilitated the creation of the Foster Care Rate Issues Work Group. This committee of more than thirty representatives from private agencies and DHS central and field administration met five times between May 12 and July 6, 2006 to analyze foster care costs and current reimbursement rates.

## **UPDATE ON PERFORMANCE-BASED CONTRACTING FOR FOSTER CARE SERVICES**

After convening the work group, conducting further internal analysis, and consulting with the Chapin Hall Center for Children at the University of Chicago, DHS is taking the following action to respond to providers' immediate concerns and to continue advancing toward a performance-based foster care contracting system.

### **Plan of Action: Immediate Response**

- 1) DHS has issued a contract amendment that postpones enforcement of the increased contract requirements for specialized foster care until December 16, 2006.
- 2) As approved in the FY 2007 appropriations bill DHS will raise the general foster care administrative rate, effective October 1, 2006.
- 3) DHS will review the language of the PAFC contract and explore possible changes to contract requirements. DHS will consider adjustments that can streamline the process of service delivery and offer workload relief without compromising standards for quality and safety. DHS will continue to expect providers to work toward the achievement of performance measures.
- 4) DHS will explore possible incentive-based reinvestment strategies for implementation within the time period covered by the current contract or at the initiation of the next PAFC contract. DHS will consider strategies that further advance the state's pursuit of performance-based contracting.

### **Plan of Action: Next Steps Toward Performance-Based Contracting**

- 1) DHS is performing statistical analyses on historical foster care data with its consultants at the Chapin Hall Center at the University of Chicago. These analyses will allow DHS to compare the past performance of private agencies on specific outcome measures and to observe population fluctuations among groups of children within the larger foster care census over time.
- 2) Since April 16, 2006, DHS has continued to collect new data from private providers to establish preliminary performance baselines for future performance-based contracts.
- 3) DHS is considering additional outcome measures and developing a fiscal model that will offer providers incentives for good performance.
- 4) DHS will develop a plan for implementing the performance-based system. This plan will focus on adapting organizational processes and training public and private personnel.

The current PAFC contracts expire on September 30, 2007. DHS intends to implement new performance-based contracts with child placing agencies at that time. DHS also expects to take intermediate steps that encourage providers to focus greater attention on performance in the interim. In collaboration with private agencies, DHS proposes to develop a system that relies on empirical evidence, meets federal standards, and pursues the state's primary child welfare objectives. Through this transition, DHS will provide support to service providers and work collaboratively to ensure a successful implementation.